Argyll Resources Ltd.

1981 Annual Report

Corporate Information

Directors and Officers:

Jack B. Whitely — *Chairman of the Board*
Toronto, Ontario

Derek S. Jones — *President and Director*
Calgary, Alberta

Victor W. Sutherland — *Vice-President and Director*
Calgary, Alberta

Robert G. Atkinson — *Director*
Vancouver, British Columbia

James W. Beckerleg — *Director*
Toronto, Ontario

*Stanley J. Chad — *Director*
Calgary, Alberta

*R. Lyle Pretty — *Director*
Priddis, Alberta

W. David Black — *Secretary*
Vancouver, British Columbia

* To be elected at Annual General Meeting of Shareholders on June 15, 1982.

Offices:

1020, 717 - 7th Avenue S.W.
Calgary, Alberta T2P 0Z3
(403) 269-5928

Subsidiary Companies:

Patco, Inc.
RL Resources Ltd.

Bankers:

The Royal Bank of Canada, Main Branch
Calgary, Alberta

Fondren Southwest Bank,
Houston, Texas

Auditors:

Collins Barrow
Calgary, Alberta

Solicitors:

DuMoulin Black,
Vancouver, British Columbia

Burstall & Company,
Calgary, Alberta

Transfer Agent:

Yorkshire Trust Company,
Vancouver, British Columbia

Stock Exchange Listing:

Vancouver Stock Exchange
Trading Symbol: AYR

Management Report

The undersigned as President of the Company hereby states that:

1. all the information contained in the annual report has been approved by the board of directors, including the financial statements;
2. management is responsible for the preparation and the presentation of the information in the annual report;
3. the financial statements contained in the annual report have been prepared by management in accordance with generally accepted accounting principles appropriate in the circumstances;
4. other financial information in the annual report is consistent, where appropriate, with the financial statements;
5. the auditor is responsible for auditing the financial statements and for giving an opinion on them.

DATED at the City of Calgary, in the Province of Alberta this 14th day of May, 1982.

DEREK S. JONES
President

Annual Meeting to be held at 2:00 p.m., June 15, 1982 at 1004 - 595 Howe Street, Vancouver, British Columbia.

President's Report

I am very pleased to report that your Company during 1981 continued to increase significantly the value of its asset base, extend its successful exploration program in Canada and the United States, and increased its oil and gas revenue.

Net revenue increased from $625,000 in 1980 to $897,000 in 1981, however, cash flow decreased from $307,000 to a deficiency of $16,600 during the same period. The increase in our bank borrowings during the year added to our interest expense and, together with the payment of petroleum and gas revenue tax, lowered our cash flow from operations. We had planned during the year an equity financing to the public, however, because of market and economic conditions this action was not possible. Our exploration and development programs have been financed through oil and gas revenue and bank borrowings.

Effective January 1, 1982 the Company will receive "New Oil" prices on oil production that was found after December 31, 1980. We are very fortunate in that approximately 40% of our Steelman North Area, which has daily production of 500 barrels per day with a deliverability of up to 1000 barrels per day on full production, will receive "New Oil" price while all production from Steelman Section 16 and Willesden Green West will receive new oil pricing. The new oil price is currently around $44.00 per barrel.

The Company remained active in its drilling program during 1981 and participated in a total of 24 wells. The active drilling areas for the Company were at Willesden Green West Area, Alberta, where a major Viking Oil discovery was made and will be developed further during 1982; Steelman Area in Saskatchewan, where development drilling was successful and production could be maintained at 1000 barrels per day and in Vermilion Parish, Louisiana, where the Company has an interest in Zaunbrecher No. 1 well with proved gas reserves of 80 billion cubic feet which will be on production in May 1982 at an anticipated rate of 10 million cubic feet per day. The Company has entered into a further agreement in Vermilion Parish, Louisiana wherein Superior Oil Company, as operator, will drill a 17,200 foot well on a seismic controlled structure.

The Company holds, through its wholly owned subsidiary Patco, Inc., a 12½% interest in Block 46 South Pass, Gulf of Mexico, Louisiana. We have been advised by our operator that Texaco have recently made a gas condensate discovery on Block 45 offsetting our lands. The exploration review, by Mr. Sutherland in his report, highlights our activity in more detail.

The Company has completed its first comprehensive engineering evaluation of its producing and non-producing properties and we have included in this report a summary of the results of the study.

The present economic strains that everyone is experiencing at this time have not eluded your Company, however, with the previous decision by management to explore for oil and gas that could be placed on production at an early date, we are forecasting that 1982 revenue from oil and gas sales after royalty and taxes should approach 2 million dollars, thereby alleviating some of our economic strain. We plan to limit our exploration expenditures during 1982 unless improvement in the economic conditions of the industry and the country warrant otherwise. We will continue to explore under our Limited Partnership Agreement with The Royal Trust Corporation of Canada and under a new Joint Venture Agreement with Chauvco Resources Ltd.

Our shareholders have been exposed to many articles regarding the National Energy Program but not until recently about the Petroleum Prices and Compensation Act. Let me say that because of the Federal Government (as well as the Provincial Government) policies, and in particular the Compensation Act, your Company has wells from which oil production cannot be sold because of lack of markets within Canada while at the same time the Federal Government is continuing to subsidize, at world prices, imported oil which adds billions of dollars to our country's staggering debt. Your Canadian controlled Company requires this lost production revenue in order that its exploration programs can be expanded in the costly search for new oil reserves.

Since September 1981 Calvert-Dale Estates Limited has acquired a substantial number of the Company's shares representing approximately 43% of the issued and outstanding common shares. We welcome them as shareholders and look forward to their corporate support.

The Company, under memorandum of Agreement effective April 5, 1982 with Esso Resources Canada Limited, agreed to participate as to a 3% interest in the West Atkinson L-17 well currently drilling in the Beaufort Sea. Under the agreement, Argyll would participate as to its interest in a proposed $600 million dollar exploration program covering all of Esso's Beaufort Sea and Mackenzie Delta acreage (except lands on known discoveries) upon satisfactory tax and petroleum incentive program rulings being obtained by the farmees. This program would cover the drilling of seven offshore wells and six onshore wells during the period ending December 31, 1986 as well as conducting seismic programs on farmout lands to further detail known anomalies and to evaluate the Esso lands. The Esso lands under the farmout agreement total over 5.5 million acres. The Company believes major reserves will be found in the Beaufort Sea and Mackenzie Delta area under the Esso Agreement.

Mr. John McAskill, the founder of the Company, resigned from the Board of Directors during 1981 and we express our gratitude to John for his dedication to the Company. I most heartedly welcome to our Board of Directors Mr. Jack Whitely, Mr. James Beckerleg and Mr. Robert Atkinson who have contributed greatly to the ongoing success of your Company. We have also asked Mr. Stanley Chad and Mr. Lyle Pretty to stand for nomination to the Board of Directors and we sincerely hope that the shareholders will approve their nominations.

To our faithful and hardworking employees, I wish to express my sincere appreciation for their commitment to our growing Company.

Submitted on Behalf of the Board of Directors

Derek S. Jones

Derek S. Jones,
President

May 14, 1982

Argyll Activity

Exploration, Development and Production

During 1981 the Company participated in the drilling of 24 wells 18 of which were completed or are waiting on completion and 6 of which are abandoned. This results in a success ration of 75%. Twelve of the successes were oil wells and six were gas wells. Three of the abandonments were drilled at no cost to the Company.

The statistics for 1981 demonstrate Argyll's continued emphasis on investment in cash flow related prospects offering sound technical support. A relatively strong net income position has been achieved which is now enabling the Company to invest in higher potential prospects. Successes such as has been recorded in Louisiana are a consequence of this direction. The Company sees similar opportunity in 1982 although accompanied by continued care with regard to financial exposure in these "dollar-short" times. Canadian exploration in N.O.R.P. oil situations will continue in 1982 with the assistance of funds from our Limited Partnership and Joint Venture partners. Additionally, frontier exploration opportunities are being investigated where dollar investment can be minimized. Canada frontier lands are included in this search. U.S. exploration will continue as in 1981.

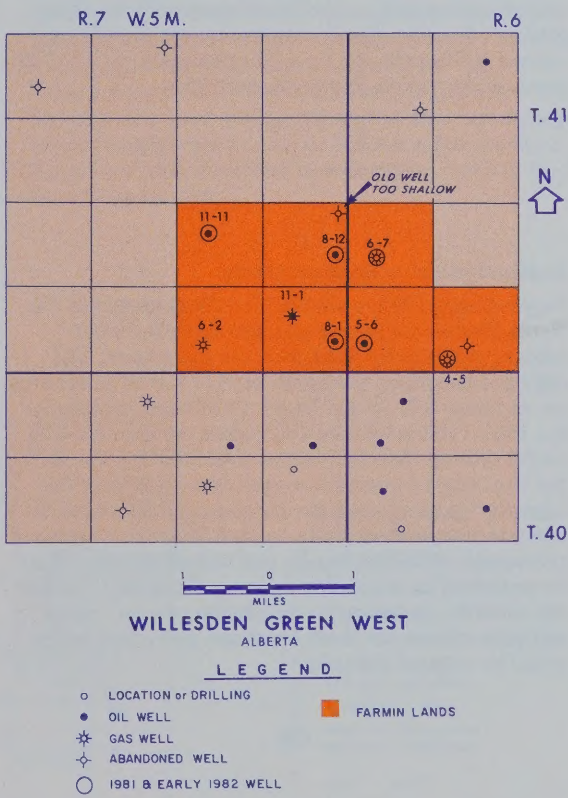
The Company's position is strengthened following the April 26, 1982 election in Saskatchewan. Continued investment therefore in technically sound prospects in this province is seen for 1982 and later.

Alberta — Willesden Green West

This prospect received considerable attention during 1981 with the drilling of six delineation wells during the year. It now appears that the undip gas cap has been defined by the wells 4-5-41-6 W5M and 6-7-41-6 W5M and that the northern edge of the pool has been found by the marginal results of 11-11-41-7 W5M and 8-12-41-7 W5M.

The development well in 8-1-41-7 W5M was drilled in late 1981 and is the most successful to date. During January 1982 this well averaged 240 barrels per day of N.O.R.P. oil receiving $46.00 per barrel.

Additional development drilling is anticipated probably in the summer of 1982 and a gas conservation scheme is being studied.



Southern Alberta "Glauconitic" Prospects

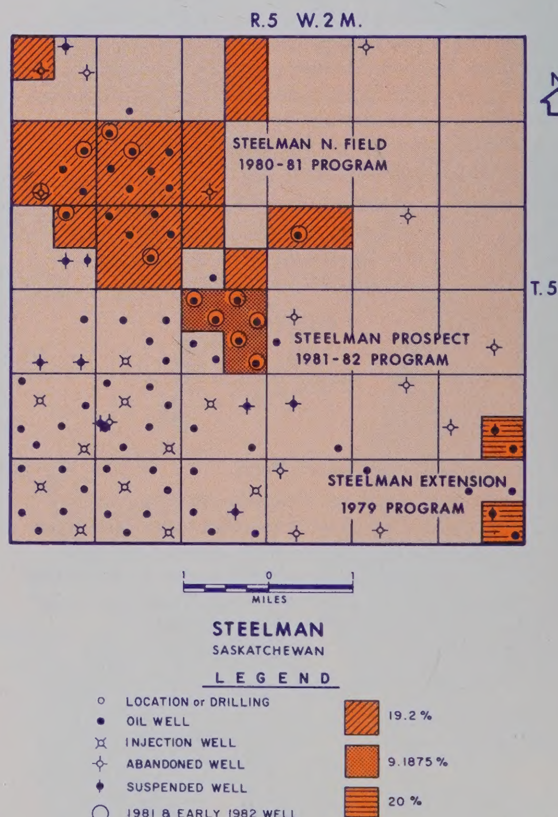
Argyll is a partner in a four member group formed to shoot seismic, acquire land, and drill Basal Cretaceous prospects in Southern Alberta. To date 500 miles of seismic have been acquired and ten prospects have been defined. Crown lands have been acquired on two of these and negotiations are continuing on the remainder. Additional seismic will be shot and drilling will probably commence in the last half of 1982.

The Company has financed this activity by including the exploration in the Royal Trust Limited Partnership and in our Joint Venture with Chauvco. Combining our carried interest with a small working interest our share totals 7.5% net in this play where successful wells may exceed 100 barrels of oil per day allowable. N.O.R.P. oil prices make success extremely rewarding.

Saskatchewan — Steelman Area

Argyll, during 1981, continued the development of the North Steelman area and successfully drilled eight oilwells with two dry holes and one suspension. The eight producers are all eligible for N.O.R.P. oil prices and are receiving $43.95 per barrel. Combined capacity for the 1981-1982 wells total 400 barrels per day and with earlier drilling, the total reaches over 1000 barrels of oil per day. Argyll's interest averages close to 20% of this capacity. Gross reserves for the group, as calculated by a recent independent study, totals 4.85 million barrels of recoverable oil before royalty and including future oil to be recovered by secondary recovery. Feasibility studies are currently underway for installation of a secondary recovery scheme for North Steelman and construction could be initiated this year.

Production from our Steelman wells has been severely curtailed in 1981 by the prorationing caused by the political problems and by the cutbacks created by the competition for subsidized international offshore oil. Production for much of 1981 was in the order of 400 barrels of oil per day. Under similar restrictions 1982 production should be somewhat higher because of additional drilling in late 1981 and early 1982. Eventually and hopefully, in the latter half of 1982, the situation will be corrected and production will approach 1000 barrels per day of this 38 degree gravity crude.



United States

Louisiana — Gueydan Area

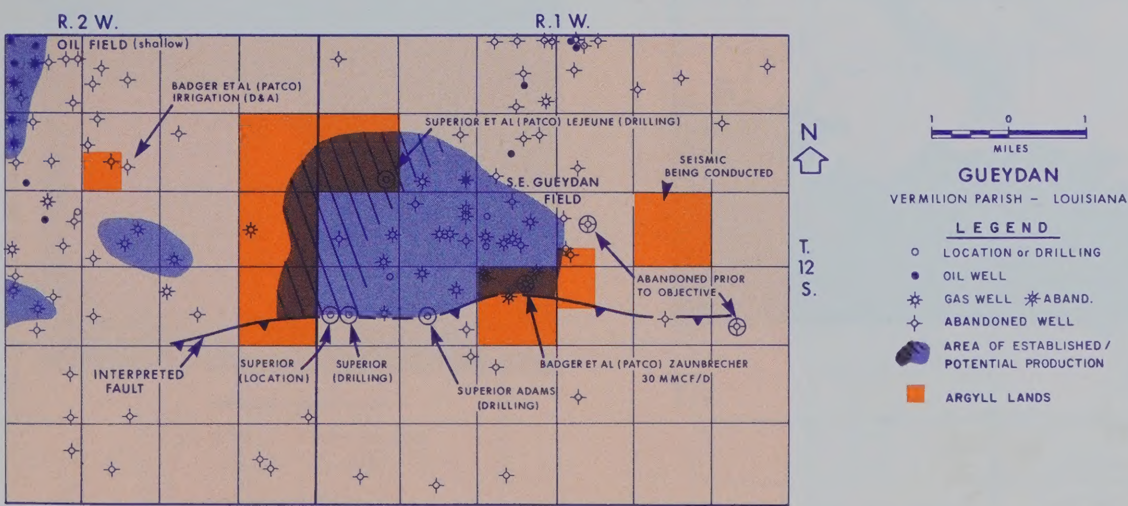
The most rewarding exploration in 1981 for Argyll has been our participation in the Badger et al Zaunbrecher well, drilled in mid-1981 to a total depth of 16,400 feet. The Company holds a 4.75% interest before payout and a 2.375% interest after payout in this well.

The primary objective was encountered at 16,100 feet and included 91 feet of gas bearing sand with no water contact. Drilling then continued and penetrated a lower zone at 16,250 feet where 37 feet of gas bearing sandstone was encountered overlying water bearing sand at 16,320 feet. The upper part of this lower sandstone was later perforated and recorded a deliverability of 30 million cubic feet per day and an AOF of 420 million cubic feet per day. Independent engineering evaluations place 81 billion cubic feet of marketable gas under 400 acres of our lease. This is considered to have a present value, discounted at 15%, of $4.8 million net to our Company.

A gas contract has been signed which includes a take or pay clause of a minimum of 5 million cubic feet per day although actual sales are expected to exceed 10 million cubic feet per day. Pricing varies with the take but will probably average over $7.25 U.S. per thousand cubic feet. Pipeline is now in the ground and start-up is expected May 1, 1982 although this start-up date has been delayed several times.

Additional drilling is anticipated because of the extremely high proven reserves in this well.

Negotiations have now been concluded whereby your Company can earn an interest in 4 sections located on the west side of the S.E. Gueyden gas field. The well Superior et al Lejeune was spudded on March 31, 1982 and on April 28, 1982 was drilling at 9,142 feet. Projected depth is 17,200 feet. After pooling with Superior who have conducted seismic over our acreage, our working interest in 1.65%. Following this activity a second well may be drilled to earn option lands in the 3 sections to the west.



A 20% interest was acquired late in 1981 in Section 14 located northeast of the Zaunbrecher discovery. Two wells were subsequently drilled by others in adjoining sections but were abandoned at relatively shallow depths because of lack of drilling funds. At time of writing it is understood that industry competition is shooting seismic over Section 14 in contemplation of a possible farmout proposal. In such an event our retained interest would be considerably higher than that for Zaunbrecher.

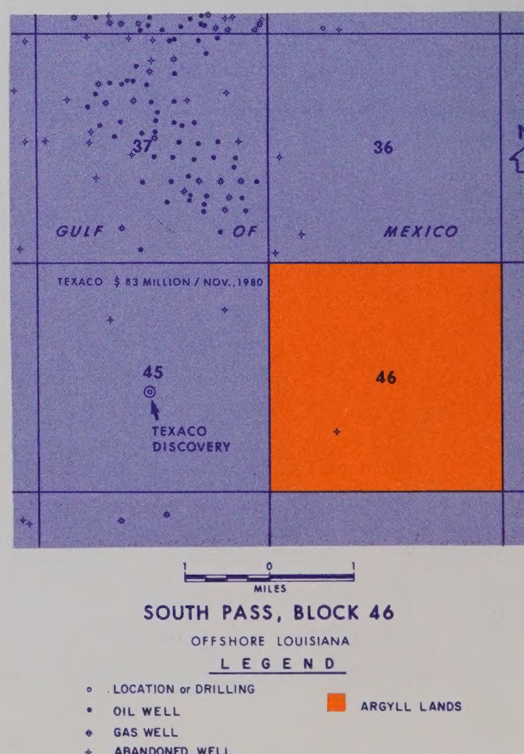
The Company had an interest in the well Badger et al Irrigation drilled in August 1981. The well was abandoned at 10,656 feet.

Louisiana Offshore

The Company, with partners, successfully acquired South Pass Block #46 for $381,247 at the Federal Offshore Sale held on October 20, 1981. Argyll's wholly owned subsidiary, Patco, Inc., holds a 12½% working interest.

In March 1982 Texaco announced a gas condensate discovery, LaSalle North #1, in Block #45 immediately adjacent to our acreage. Texaco paid $83 million for this block in November of 1980. Their press release indicated a 75 foot pay zone at 12,000 feet and explained plans for a delineation well later this year after which, depending on test results, a drilling production platform will be designed and installed.

Reconnaissance seismic indicates several anomalies on these blocks and our operator for these lands has been approached by Texaco regarding possible farmout.

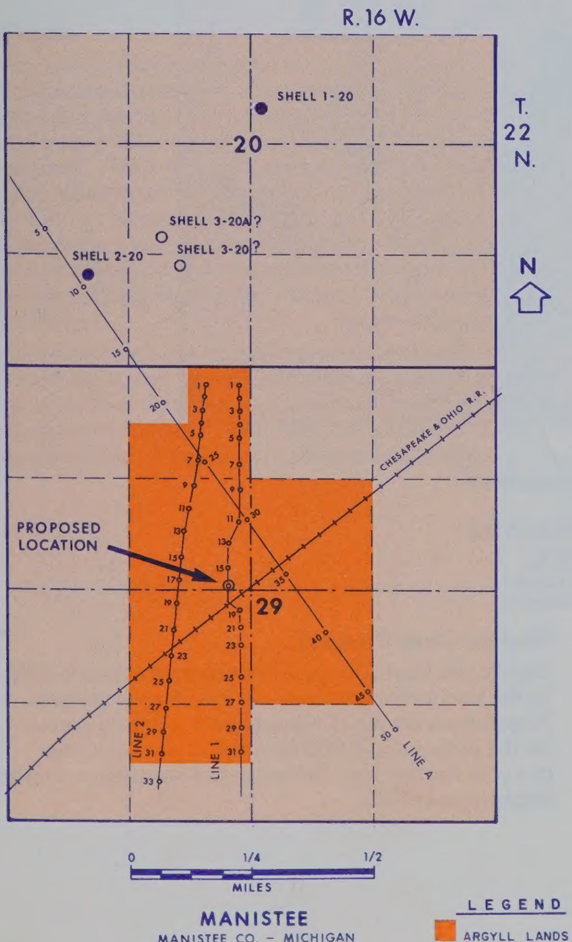


Michigan — Manistee Prospect

Lands have now been assembled over a seismic anomaly indicating a Niagaran pinnacle reef in the reef trend of northwestern Michigan.

The drilling location lies three-quarters of a mile from Shell et al Suida 2-20 which was completed in 1976 in the Niagaran reef with an I.P. of 386 barrels of oil per day. Between 1975 and 1980 the well produced 254,000 barrels of oil and 750 million cubic feet of gas. In early 1981 it was still yielding 2,500 barrels of oil per month. One mile north of our location the well Shell Spolyor 1-20 was completed in 1975 with an initial potential of 324 barrels of oil per day. Reports indicate that the well produced 102,000 barrels of oil in 1978.

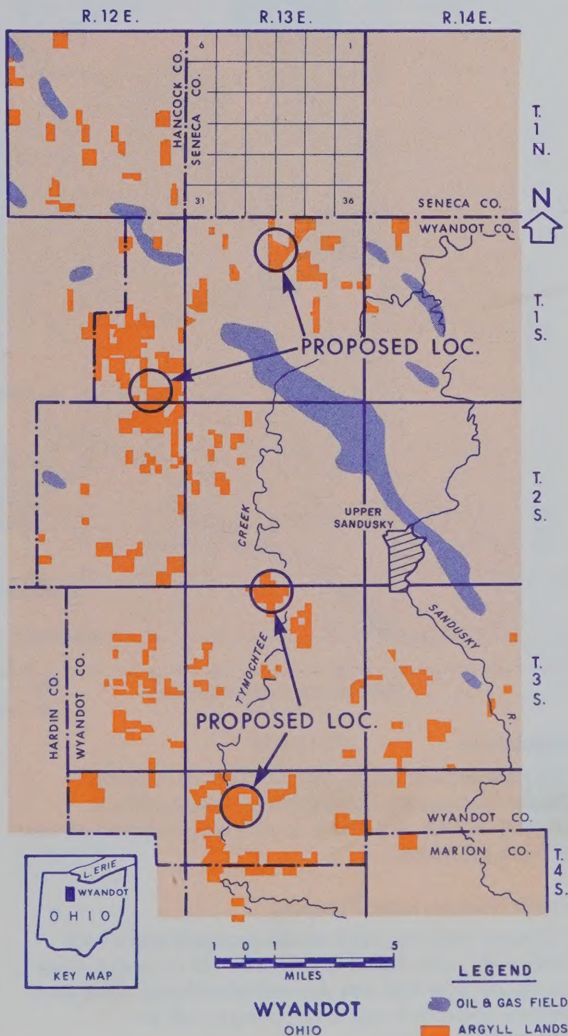
The well is expected to spud during May 1982. Our interest is 10% in this high potential play.



Ohio — Wyandot County

Your Company has acquired a 10% interest in 21,500 acres of freehold leases in Western Ohio. These lands lie in and around the ancient Carey oil pool, discovered in 1887, which has produced unrecorded millions of barrels of oil from the Trenten Limestone at the 1,200 foot to 1,500 foot depth. A deeper zone, Knox Dolomite, also has potential.

Negotiations are continuing with a U.S. drilling partner for the drilling of four widely spaced wells at no cost to the group. Such activity would take place prior to September 1, 1982.



Oklahoma

The joint venture group, operated out of Ardmore, Oklahoma in which the company holds a $33\frac{1}{3}\%$ working interest, resulted in lands being acquired on four different prospects.

South Duncan Lake Prospect

753 acres were acquired on this prospect and a well, Golden #1, was drilled to 8,022 feet at no cost to your Company. The well was dry and abandoned. Our joint venture operator is now attempting to sell the unevaluated acreage.

Sholom-Camp Prospect

Slightly less than 100 acres have been acquired in 1981 by the joint venture partners on this close-in prospect. Negotiations are now underway with a drilling partner for the drilling of a 6,000 foot well at no cost to the group to test the play. Drilling would commence prior to September 1, 1982.

South Ponca Prospect

Less than 640 acres has been acquired on this prospect and our group has been approached for a directly offsetting test to evaluate the play.

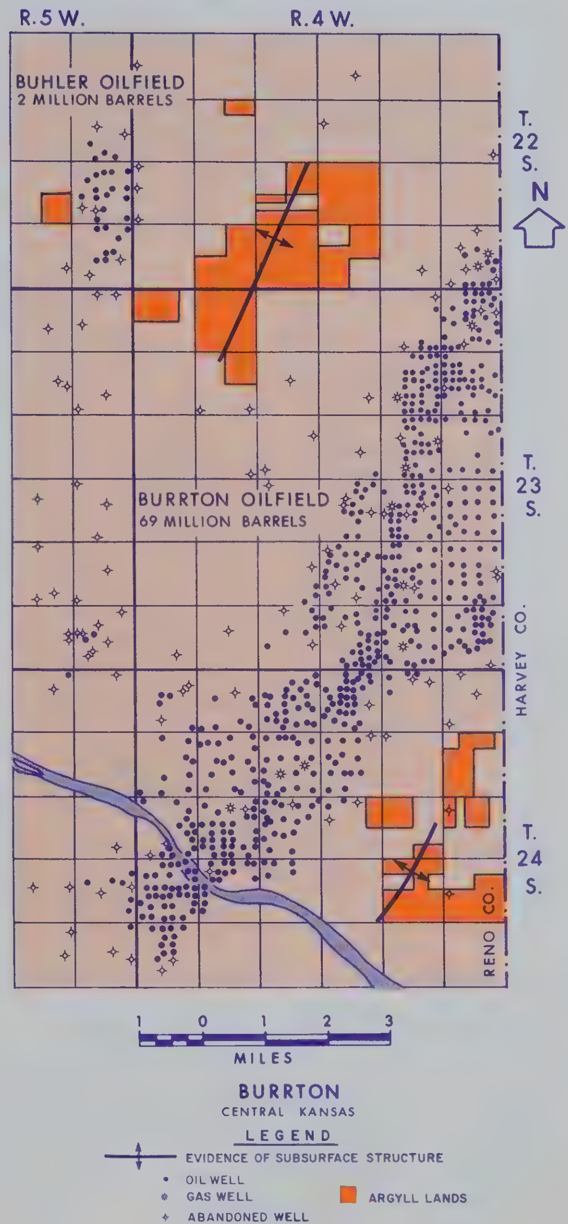
West Buffalohead Prospect

Less than 640 acres have been leased on this low risk oil prospect which is offset on two sides by completed oilwells. Earlier negotiations with a potential drilling partner fell through but additional potential partners are being contacted with a view to having the lands drilled in 1982.

Kansas

Technical studies conducted out of the Calgary office have defined a number of prospects in Central Kansas. Nine of these have been selected for land acquisition and over 7,000 acres of freehold leases have been acquired. These prospects are held 100% by Argyll and potential partners are now being contacted with a view to conduct seismic followed by exploratory drilling. Potential in each prospect may exceed 1 million barrels of recoverable oil and may range as high as 10 million barrels. Drilling depths vary between 3,500 feet and 4,500 feet.

Two prospects in the Burrton area of Central Kansas have been leased by the Company and offer potential for more than doubling the Company's asset value in the event of success. These lands are displayed on the included map as typical of our Kansas exploration.



Reserves, Well Report and Production

The Company has received independent engineering reports on its major producing and non-producing oil and gas properties effective January 1, 1982 except for the Zaunbrecher well which is effective September 1, 1981. The MTA Engineering Ltd. report which covers the Canadian properties of the Company gave the Steelman Area proven reserves of 211.5 MSTB and proven plus probably additional reserves of 534.5 MSTB. The Company believes that a majority of the probable reserves will be recoverable on a secondary injection scheme in the Steelman property since injection schemes are proven in this area as far back as the 1960's.

The following table indicates the value and reserves of our major properties:

COMPANY'S NET SHARE

	Net Remaining Reserves		Future Cash Flow Discounted At			
	Oil	Gas	0%	15%	18%	20%
	(MBBLS)	(MMCF)	M$	M$	M$	M$
Proved	290.9	5.096.6	45,920.4	14,992.6	13,392.8	12,025.2
Proved Plus Probable	765.0	6,777.2	88,480.8	27,705.8	24,050.0	21,561.8

NOTE:

1. The above reserve information was compiled from:
   (i) MTA Engineering Ltd. report effective January 1, 1982 covering major Canadian producing and non-producing properties of the Company.
   (ii) Paul E. Cameron, Jr. Inc. report effective January 1, 1982 covering producing properties located in Texas, U.S.A. of Patco, Inc.
   (iii) Farries Engineering (1977) Ltd. report effective September 1, 1981 covering Zaunbrecher No. 1 well in Vermilion Parish, Louisiana.
2. No value has been included in these figures for non-producing lands in which the Company holds undivided working interest.

Well Report

The following table shows Argyll's drilling results for the years 1979, 1980 and 1981:

	Wells Drilled		Oil Wells		Gas Wells		Dry Holes		Percentage
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Success
1979	28	4.19	8	1.65	13	1.51	7	1.03	75%
1980	41	5.83	23	4.16	10	0.54	8	1.13	80%
1981	24	3.13	12	1.51	6	0.34	6	1.28	75%

Production

The following table indicates the Company's daily average production for the years 1980 and 1981:

	Gas		Oil	
	mcf/d	$10^3m^3/d$	bbl/d	m^3/d
1980	332.7	9.0	65.0	10.3
1981	427.9	12.1	121.7	19.3
% Increase 1980/1981	28.6%		87.2%	

Consolidated Balance Sheet

Argyll Resources Ltd.
(Incorporated under the laws of British Columbia)

December 31, 1981

	1981	1980
ASSETS		
CURRENT ASSETS		
Cash	**$ —**	$ 309,697
Accounts receivable	**1,056,878**	393,603
Agreement receivable	**—**	300,000
Petroleum incentive grants receivable	**146,000**	—
Current portion of Province of Saskatchewan production incentive credits receivable	**43,000**	26,000
	1,245,878	1,029,300
AGREEMENT RECEIVABLE (Note 2)	**300,000**	—
PROVINCE OF SASKATCHEWAN PRODUCTION INCENTIVE CREDITS RECEIVABLE	**102,308**	112,681
PROPERTY AND EQUIPMENT (Note 3)	**8,100,073**	6,380,876
OTHER ASSETS	**25,221**	62,496
	$9,773,480	$7,585,353
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	**$ 353,380**	$ 430,000
Accounts payable and accrued liabilities	**953,380**	973,873
	1,306,760	1,403,873
LONG-TERM DEBT (Note 4)	**4,347,302**	1,672,500
DEFERRED INCOME TAXES	**6,131**	64,831
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 5)		
Authorized		
10,000,000 shares without nominal or par value		
Issued		
3,494,001 shares	**4,386,826**	4,386,826
RETAINED EARNINGS (DEFICIT)	**(273,539)**	57,323
	4,113,287	4,444,149
	$9,773,480	$7,585,353

Approved on behalf of the Board,

Derek S. James, Director

, Director

Consolidated Statement of Changes in Financial Position

Argyll Resources Ltd.

Year Ended December 31, 1981

	1981	1980
WORKING CAPITAL WAS PROVIDED FROM		
Operations	**$ —**	$ 306,632
Decrease in production incentive credits receivable	**10,373**	—
Reduction of other assets	**37,275**	—
Petroleum incentive grants	**146,000**	—
Increase in long-term debt	**2,674,802**	1,500,000
Issue of common shares	**—**	617,063
Reclassification of agreement receivable	**—**	300,000
	2,868,450	2,723,695
WORKING CAPITAL WAS USED FOR		
Operations	**16,562**	—
Acquisition of property and equipment	**2,238,197**	2,240,475
Reclassification of agreement receivable	**300,000**	—
Additions to other assets	**—**	44,441
Repayment of long-term debt	**—**	95,000
Production incentive credits receivable	**—**	112,681
	2,554,759	2,492,597
INCREASE IN WORKING CAPITAL	**313,691**	231,098
WORKING CAPITAL DEFICIENCY, BEGINNING OF YEAR	**(374,573)**	(605,671)
WORKING CAPITAL DEFICIENCY, END OF YEAR	**$ (60,882)**	$ (374,573)

Consolidated Statement of Earnings (Loss)

Argyll Resources Ltd.

Year Ended December 31, 1981

	1981	1980
REVENUE		
Oil and gas sales	**$ 885,603**	$565,044
Interest and other	**11,031**	59,923
	896,634	624,967
EXPENSES		
Production	**221,799**	182,644
Petroleum and gas revenue tax	**63,504**	—
General and administrative	**256,833**	96,506
Interest on long-term debt	**383,347**	50,137
Depletion	**330,000**	165,000
Depreciation	**43,000**	23,302
	1,298,483	517,589
EARNINGS (LOSS) BEFORE INCOME TAXES	**(401,849)**	107,378
INCOME TAXES		
Deferred (recovery)	**(58,700)**	61,031
Alberta royalty tax credit	**(12,287)**	(10,952)
	(70,987)	50,079
NET EARNINGS (LOSS)	**$ (330,862)**	$ 57,299
NET EARNINGS (LOSS) PER SHARE	**$ (0.094)**	$ 0.017

Consolidated Statement of Deficit

Year Ended December 31, 1981

	1981	1980
RETAINED EARNINGS, BEGINNING OF YEAR	**$ 57,323**	$ 24
NET EARNINGS (LOSS)	**(330,862)**	57,299
RETAINED EARNINGS (DEFICIT), END OF YEAR	**$ (273,539)**	$ 57,323

Notes to the Consolidated Financial Statements

Argyll Resources Ltd.

December 31, 1981

1. Significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include, in addition to the accounts of the company, the accounts of its wholly-owned subsidiaries, Patco, Inc. and R L Resources Ltd.

(b) Exploration and development costs

The company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and the development of oil and gas reserves are initially capitalized. Costs capitalized include land acquisition cost, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells together with overhead and interest directly related to exploration and development activities. Proceeds on minor property sales are credited to the net book value of the property and equipment. Gains or losses on major property sales are normally recognized in the statement of earnings.

Exploration and development costs are allocated to one cost centre, namely, North America (Canada and the United States).

Costs capitalized in the cost centre are depleted on the composite unit-of-production method based on estimated proven oil and gas reserves as determined by independent and company engineers.

(c) Petroleum Incentive Program

Petroleum incentive grants earned under the Petroleum Incentive Program have been deducted from the cost of the related assets.

(d) Province of Saskatchewan production incentive credits

The company earned approved expenditure credits on certain expenditures made in Saskatchewan. Such incentive credits are recoverable based on the company's monthly production. The company follows the policy of recognizing the incentive credits when they are applied for based on the lesser of total credits applied for to date and the credits that would be recovered based on estimated Saskatchewan production for the following five year period. The credits have been deducted from the cost of property and equipment.

(e) Depreciation

Depreciation of lease and well equipment is provided for on the composite unit-of-production method. Depreciation of sundry equipment is computed on the declining balance method at 20% per annum.

(f) Translation of foreign currencies

The accounts of the foreign subsidiaries have been translated to Canadian dollars on the following basis: Current assets and current liabilities at the rate of exchange in effect at the end of the year. Other assets and liabilities at the rate of exchange in effect at the date of settlement. The items in the statement of loss are translated at the average rate of exchange prevailing during the year except for depletion and depreciation, which are translated at the same rates as used for the related assets.

(g) Joint venture accounting

Substantially all of the exploration and production activities of the company are conducted jointly with others and accordingly these financial statements reflect only the company's proportionate interest in such activities.

(h) Loss per share

Basic loss per share has been calculated using the weighted average number of common shares outstanding during the year. The calculation of loss per common share on a fully diluted basis assumes the conversion of the debentures and exercise of all stock options which would have a dilutive effect on loss per share, however, loss per share on a fully diluted basis in 1981 and 1980 is anti-dilutive.

2. Agreement receivable

The agreement receivable bears interest at a Canadian bank's minimum lending rate and is evidenced by a demand promissory note and secured by an assignment of production proceeds from certain oil and gas properties.

The agreement receivable is in default and was due on September 1, 1981.

The company is currently negotiating with the borrower to settle the debt with an assignment of certain oil and gas properties.

3. Property and equipment

Property and equipment consists of the following:

	1981			1980
	Cost	Accumulated Depletion and Depreciation	Net	Net
Petroleum and natural gas leases and rights and exploration and development thereon	$7,682,058	$552,200	$7,129,858	$5,796,548
Lease and well equipment	1,028,056	69,455	958,601	576,783
Other	17,202	5,588	11,614	7,545
	$8,727,316	$627,243	$8,100,073	$6,380,876

4. Long-term debt

Long-term debt consists of the following:

	1981	1980
10% secured, convertible debentures	$1,500,000	$1,500,000
Agreement payable	172,500	172,500
Bank demand loan	2,674,802	—
	$4,347,302	$1,672,500

The 10% secured, convertible debentures bear interest at 10% per annum and are secured by a floating charge on all of the company's assets. The debentures are due August 31, 1983. The debentures are convertible, at the option of the debenture holders, into common shares of the company at $3.75 per share until August 31, 1983.

The agreement payable is with two holding companies owned by two directors of the company, whereby the company acquired certain gross overriding royalty interest in consideration for 230,000 shares of the company valued at $1 each. As of the end of the year, 57,500 shares were issued. The remaining 172,500 shares will be issued upon the occurrences of certain events.

The bank demand loan bears interest at 1% above bank's prime lending rate and is secured by a general assignment of book debts. The bank has indicated that there are no fixed terms of repayment and that no repayments will be required in the following year.

5. Share capital

The company has reserved 172,500 shares for issue in respect of a purchase of an overriding royalty interest (see Note 4). The shares are valued at $1 each and will be issued upon the occurrences of certain events.

The company has reserved 400,000 shares for issue in respect of convertible debentures at a price of $3.75 per share (see Note 4).

Shares of the company are offered to key employees and directors under a stock option plan. The options are generally exercisable one-third annually on a cumulative basis. Details of options outstanding are as follows:

Date Granted	Exercise Price in Year From Date of Grant			Number of Shares
	Year One	Year Two	Year Three	
May 17, 1979	$2.25	$2.50	$2.75	150,000
April 1, 1980	$2.75	$3.00	$3.25	30,000
January 27, 1981	$2.75	$3.00	$3.25	30,000
August 26, 1981	$2.75	$3.00	—	6,000
				216,000

6. Remuneration of directors and officers

Directors and senior officers of the company (including the five highest paid employees) received remuneration directly or indirectly amounting to $137,260 for the year ended December 31, 1981 (1980 - $89,600).

7. Segmented information

	Canada	United States	Total
Oil and gas sales	$ 613,127	$ 272,476	$ 885,603
Production expenses and taxes	172,945	112,358	285,303
Operating profit	$ 440,182	$ 160,118	$ 600,300
Interest on long-term debt			383,347
General and administrative			256,833
Other income			(11,031)
Depletion			330,000
Depreciation			43,000
			1,002,149
Loss before income taxes			$ (401,849)
Identifiable assets	$6,957,916	$2,815,564	$9,773,480

Auditors' Report

To the Shareholders
Argyll Resources Ltd.

We have examined the consolidated balance sheet of Argyll Resources Ltd. as at December 31, 1981 and the consolidated statements of loss, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

COLLINS BARROW
Chartered Accountants

Calgary, Canada
March 24, 1982

Land Holdings

At December 31, 1981 the Company holds petroleum and natural gas leases in Canada and the United States as follows:

	Gross Acres	Net Acres
Canada — Alberta	99,984	10,551
Saskatchewan	4,640	2,152
British Columbia	4,085	351
	108,709	13,054
United States — Ohio	21,810	2,460
Texas	2,051	902
Oklahoma-Kansas	4,343	271
North Dakota	8,960	1,600
Ardmore Basin	1,200	400
Kansas (Central)	7,248	7,248
Wyoming	440	55
Louisiana	8,697	906
	54,749	13,842
Total Interest Lands	163,458	26,896

ROYALTY LANDS

The Company holds a gross overriding royalty which varies from 0.75% to 1.5% on 54,240 acres located in Saskatchewan which is deemed to be natural gas productive from the shallow formations.

1981
Annual
Report

Argyll
Resources
Ltd.

Printed in Canada

Cal/Oka Printing L
Calgary, Alberta